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bc Mr. Hoskyns
Mr. Wolfson
Master

10 DOWNING STREET

From the Private Secretary

14 May 1980

Dear Jim,

Lord Shepherd, the Chairman of the Pay Research Unit Board, and his deputy, Sir Derek Rayner, called on the Prime Minister this morning. The Chancellor of the Exchequer, the Lord President, Mr. Channon and Sir Robert Armstrong were also present.

Although there was some discussion of the PRU system as a whole, Lord Shepherd concentrated mainly on the role of the PRU Board. He said that he had no quarrel with the PRU system as such, which he believed was the best way of settling Civil Service pay; but he was concerned about the very restricted role of the Board. The Board's recent report had expressed its satisfaction at the PRU's competence and impartiality; but they were precluded under their terms of reference from commenting on the range and type of information produced for the negotiating parties, how the information is used and interpreted, and on the validity of the final settlement. It was widely believed that the Board should have more of a watchdog role than this; alternatively, there were many people who thought the Board was responsible for the choice of analogues and the negotiated rates etc., which was of course not the case. In any case, he felt there would be greater public confidence in the PRU system if the Board were to play a fuller part. He had in mind, in particular, that the Board should advise on the choice of analogues, and on the value of pensions and job security; and comment on the way in which the analogue salaries were adjusted and averaged to reach the true rates for Civil Servants. The Board's sole task at present was to check whether the PRU surveys were carried out properly: this, in his view, was wholly inadequate.

The Prime Minister said that she was very concerned that the PRU arrangements did not at present seem to take into account comparative performance as between Civil Servants and their outside analogues. She was also concerned that supply and demand factors seemed to be ignored, and that no account was taken of comparative job security. It was essential that Civil Servants should be paid the "right pay for the job", and in many cases she felt that the PRU arrangements produced excessive salary levels. One other factor which was not sufficiently taken into account was regional differences in the salary levels that were required to fill the relevant Civil Service posts - even though she understood that the PRU surveys were supposed to have a reasonable regional balance. The PRU arrangements would certainly need to be looked at again, and one way of achieving better results might possibly be, as

/Lord Shepherd

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Lord Shepherd had suggested, to give the Board an expanded role. She asked Lord Shepherd if he would set out his views further in writing.

Lord Shepherd also referred to the need for improved internal audit arrangements in the Civil Service. From his experience as Lord Privy Seal, departmental staff inspectors were on the whole of good quality; but too often their suggestions were not implemented. He suggested that perhaps the PRU Board should be given some responsibility for overseeing this work. Mr. Channon said that staff inspection was basically the responsibility of departments; but the CSD needed to play a bigger role.

I am sending copies of this letter to Geoffrey Green (Civil Service Department), John Wiggins (HM Treasury) and David Wright (Cabinet Office).

W. W.

Tim Laker.

Jim Buckley, Esq.,
Lord President's Office.

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